



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON
Thursday, February 23, 2012
10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:33 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair
Mr. Tom Manos, Vice-Chair
Mr. Kevin McCarthy (via Teleconference)
Mr. David Byers

Absent: None

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the December 8, 2011 Minutes of the OC Meeting

Motion: Mr. David Byers moved the minutes of the December 8, 2011 OC meeting be accepted. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the ASRS Employee Policy Manual

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Ms. Martha Rozen, Chief of Administrative Services, who then introduced Ms. Tracy Darmer, Human Resources Manager. Ms. Rozen and Ms. Darmer addressed the Committee regarding a new employee policy manual. Ms. Rozen gave a brief history of the development of the Human Resources policies. Ms. Darmer answered questions from the Committee regarding the policy manual that was presented. The consensus of the Committee was that the policy manual should be sent to the Board with the technical modifications discussed for review and acceptance.

4. Presentation, Discussion and Appropriate Action Regarding a Review of a Charter School Study

Mr. Guarino addressed the Committee regarding a review of charter schools and their adherence to ASRS statutes. He introduced Mr. Brian Crockett, Management Analyst, who presented findings of the study conducted by strategic planning analysts and internal auditors. Those findings included: 1) charter schools have a significantly high rate of exits from ASRS membership, 2) charter schools have a significantly high rate of late payments compared to other K-12 educational entities, 3) charter school employees appear to have reported salaries that are modified with greater frequency than other employees, and 4) charter school employees may be able to modify their ASRS income to lower their reported salaries when contribution rates increase or they are preparing to purchase service.

After some discussion, the Committee suggested staff follow up on the findings and develop formal recommendations to bring to the Committee at a future date.

5. Presentation, Discussion and Appropriate Action Regarding an ASRS Employer Compliance Action Plan

Mr. Guarino addressed the Committee regarding an employer compliance action plan that was developed to help reduce reoccurring employer compliance issues. He introduced Ms. Michele Briggs, Employer Relations Manager, who presented the various steps in the plan including having an employer liaison attend the closing conference of an audit, notifying the upper management of an employer of the findings, the development of short webcast recordings on various employer issues that can be used for training or reference, enhanced communications, and letting employers know of new process changes well in advance. Ms. Briggs said the ASRS is targeting the overall error rate of non-compliance issues to be reduced by 50%.

6. Presentation, Discussion and Appropriate Action Regarding an Update on Social Security Death Reports

Mr. Guarino introduced Ms. Nancy Bennett, Chief Financial Officer, and Ms. Tracy Rundle, Benefits Accounting Manager. Ms. Bennett addressed the Committee regarding the reporting of deaths from the Social Security Administration (SSA) to The Berwyn Group, Inc., a private company. She said the ASRS was notified in October 2011, that the SSA would be making changes that may affect the ASRS' ability to effectively manage pension payments made to retirees. She told the Committee how State Street, the ASRS custodial bank, sends the monthly retiree payroll file to Berwyn, who in turn, compares the file records to its national database of deceased individuals. The SSA can no longer disclose the names of deceased individuals to entities like Berwyn if SSA receives the information from a state whose privacy laws prohibit a transfer of such information.

Ms. Bennett stated the ASRS contacted the Arizona Department of Health Services Vital Record Division, and that Division was willing to allow the ASRS to run its retiree payroll file through its database of reported deaths in Arizona. She also stated because they have contracted with various states to gather death information from those states, the ASRS will continue to work with Berwyn. However, there could be an approximate four-month lag in reporting. Additionally, the ASRS Internal Audit Division (IAD) will also conduct an annual judgmental sample audit on the 12% of retirees who live out of state.

7. Presentation, Discussion and Appropriate Action Regarding ASRS Information Technology Strategic Initiatives Including Legislative Impacts

Mr. Guarino introduced Mr. Kent Smith, Assistant Director, Technology Services Division (TSD), who addressed the Committee regarding the Information Technology (IT) strategic initiatives (including legislative impacts). Mr. Smith gave the Committee a summary of the hours used by TSD to complete IT projects related to the strategic initiatives. Mr. Smith then introduced Ms. Valerie Burkett, Project Manager, who discussed the progress report of TSD from May 1, 2011 to December 31, 2011 including updates on the agency website, the development of automated workflows, and changes based on legislation. She also informed the Committee of ongoing production support activities that occurred in the latter half of 2011.

8. Presentation, Discussion and Appropriate Action Regarding the ASRS Continuity of Operations Plan

Mr. Kent Smith, Assistant Director, Technology Services Division (TSD), addressed the Committee regarding recent ASRS Continuity of Operations Plan (COOP) exercises. Mr. Smith gave a brief background on the nature of the various tests and how they were executed. Mr. Russ Parsley, COOP Coordinator, presented the Committee with a summary of tests and exercises that occurred in 2011.

9. Review of Recently Conducted Audits

- **Audit Follow Up – Secure State’s 1st Penetration Audit, Software Licensing, Physical Access Security, Logical Computer System Access, Survivor Benefits & New Retirees Pension, Arizona State University, Glendale Unified High School District, City of Tolleson, Creighton Unified School District**
- **Arizona Attorney General**
- **East Valley Institute of Technology**

Mr. Bernard Glick, Chief Internal Auditor, presented the Committee with an update on five previously conducted internal audits: Secure State’s 1st Penetration Audit; Software Licensing, Physical Access Security; Logical Computer System Access; and Survivor Benefits and New Retirees Pension; and three employer audits: Arizona State University, Glendale Unified High School District, City of Tolleson, and Creighton Unified School District. With regard to the five internal audits, Mr. Glick stated that most issues presented in the original audits were either resolved or in the process of being resolved. However, there were some outstanding issues being addressed by IAD and staff. For the four employer audits, Mr. Glick noted that all had taken steps to resolve the findings in the original audits.

The next audit was of the Arizona Attorney General. Mr. Glick stated there were no findings to report to the Committee.

The final audit was of the East Valley Institute of Technology. Mr. Glick stated there were four major findings: 1) the District did not remit an Alternate Contribution Rate for an early retiree who had worked or been engaged to work 20 or more hours for 20 or more weeks with the first 365 days subsequent to termination for retirement and before reaching normal retirement; 2) the District did not remit contributions for two employees who were engaged to work at least 20

hours per week for at least 20 hours per week for at least 20 weeks in one or more fiscal years, nor did the District remit contributions on all eligible compensation for three employees and for one employee who was dual employed; 3) the District remitted contributions for a number of ineligible individuals, and 4) the District did not ensure that all retirees returning to work complied with the requirement that they acknowledge the provisions of A.R.S. § 38-766.01 in writing within 30 days of returning to work. The amount due the ASRS is \$9,129.

10. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending December 2011. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits. Mr. Glick noted various audits and reporting that had occurred in the second quarter of the fiscal year.

11. Request for Future Agenda Items

Mr. Byers requested a discussion on when “stipends” constitute ASRS compension on which contributions should be remitted.

12. Call to the Public

No members of the public addressed the Committee.

13. Adjournment of the OC

Mr. Steven Zeman adjourned the meeting at 12:32 p.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date